

MONTHLY MONITORING REPORT

Trends in Tax Collection in FBiH

October 2005



Prepared By:
USAID TAX MODERNIZATION PROJECT
(TAMP)

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I General comments

Total revenues in the FBiH, including both revenues collected and not collected by the TAFBiH for year to date, reached 3.8 billion KM, that is increase by 24% compared to the same period of last year.

Revenues not collected by the TAFBiH include:

1. Single account revenues: customs revenues, import and domestic excises, sales tax on excisable goods and special fee from the price of oil and oil derivatives, collected by the *ITA*
2. Remaining funds on the basis of customs revenues, import and domestic excises, sales tax on excisable goods and special fee from the price of oil and oil derivatives, collected by the *ITA*, *still on the accounts of TAFBiH*.
3. Non-tax revenues (e.g. revenues from privatization)
4. Penalties (Most of them are not collected by the TAFBiH).

Total of these revenues could be seen in the Table 12 in the Attachment.

However, this report addresses only those revenues for which the TAFBiH collects data via the RAS files and comments given further relate to that type of revenues.

Major trends

The tax collection for year to date (January 1 through October 31) rose by 10% in comparison with the same period of 2004.

The most important reason for increase in collected revenues is the rise of contributions which increased by 89 mil. (8%). The next highest increase is in the sales tax¹ by 61.5 mil. (11%) and fees and compensations by 14.5 mil. (11%). Support of TAMP in registration and centralized processing of tax returns certainly contributed to mentioned increase.

The customs, excises, sales tax on excisable goods and special fee from the price of oil and oil derivatives are not included into consideration (total of these revenues from indirect taxes could be seen in Table 12).

The rise in collection of taxes occurred despite the major officials and rank and file of TAFBiH are busy with transfer of indirect taxes to the Indirect Tax Administration (ITA). The recent

¹ The sales tax includes only the sales tax on domestic and imported non-excisable goods.

creation of the ITA which has been responsible for the administration of all indirect taxes for all of BiH, poses uncertainty for the Tax Administrations. Particularly there is a significant lack of auditors who left the TAFBiH for the ITA, so that current number of TAFBiH employees is reduced by 110, from 1540 last year to 1430 as of October 2005.

II Public Revenue Collection

1. Collection Volume and Structure

As the Table 1 (in the Attachment shows), in a year to date, a total of **2.3 billion KM** has been collected in public revenues by TAFBiH showing **increase of 10%** when compared to the total collected over the same period during 2004, a sum which is higher by around 201.1 million KM than the amount collected in the same period of 2004.

The most important reason for increase in collected revenues is the rise of contributions by 89 mil. (8%). The next highest increase is in the sales tax by 61.5 mil. (11%) and fees and compensations by 14.5 mil. (11%). Further increases are recorded in profit tax by 13.8 mil. (30%), wage tax 11.8 mil. (10%), other taxes by 7 mil. (51%), and citizen taxes by 3.4 mil. (5%).

2. Indirect and Direct Taxes

The analysis in this part of the report is of the limited value. The reason is that the only indirect tax we are considering is the sales tax on non-excisable domestic and imported goods. All other indirect taxes are collected by the ITA .

Out of the total of 2.3 billion KM that the TAFBiH has collected in public revenues in a year to date, around 600 million KM have been collected in *indirect taxes (28 %)*, and 1.7 billion have been collected in *direct taxes (72%)*, see *Table5 in the Attachment*.

Within the indirect taxes, total amount is assigned to sales tax on non-excisable goods, being the only indirect tax (not paid to the single account) left to the TAFBiH to collect.

In the direct taxes, contributions accounted for 74% followed by, fees and compensations (9%), wage tax (8%), citizen taxes (4%), profit tax (4%) and other taxes (1%).

3. Collection According to Cantonal Structure

According to Table 2, revenue growth has been broadly positive across all Cantons except Canton 6 (Srednjo-Bosanski Canton) and Canton 10 (Herceg-Bosanski Canton) when comparing to year to date of 2004. In Canton 7 (Hercegovačko-Neretvanski) the revenues increased by 24% due to rise of contributions (24%), sales tax (17%) and fees and compensations (35%). In Canton 4 (Zeničko-Dobojski Canton) revenues have risen by 14%, due to increase in contributions (16%), sales tax (11%) and wage tax (24%). In Canton 9 (Sarajevo Canton), the revenues increased by 11% due to increase in contributions (8%), sales tax (12%) and profit tax (51%). This significant increase in profit tax is due to higher advanced payments (based on higher reported profits in 2004). In Canton 3 (Tuzla Canton) the revenues increased by 9% due to rise of contributions (7%) and sales tax (10%).

Canton 9 posted the highest increase in KM terms (90 million KM). ***Canton 9 (Sarajevo Canton) collects 39 % of the tax revenues collected by the TAFBiH in the FBiH.*** In those Cantons with the highest increase, leaps in contributions and sales tax on non-excisable goods have contributed greatly to the overall increase in revenues.

III Taxpayer Registration and Deregistration

During October, 2005 a total of 307 Legal Persons and 204 Physical Persons-entrepreneurs completed the registration process in FBiH and received TINs.² During the same month 63 Legal Persons and 43 Physical Persons cancelled their TINs so that in October, 2005 there was a net gain of 405 taxpayers (244 Legal Persons and 161 Physical Persons-entrepreneurs) in the FBiH. (see Table 7)

As of October 31, 2005, a total of 94,634 taxpayers held valid TINs in the FBiH consisting of 52,251 legal persons and 42,383 physical persons-entrepreneurs (see Table 6).

IV Number of Tax Payments

The number of payment orders that taxpayers have given to banks for the benefit of public revenues under the jurisdiction of the TAFBiH rose by 7 % in a year to date as compared with the same period of 2004, see Table 3.

The average payment amount per order was 333 KM in a year to date, while in the same period of 2004 the figure was 328 KM, higher by 1%, see Table 4. Taking into account the fixed amount of costs of payment transactions and payment order processing costs in TAFBiH, the conclusion can be made ***that the cost of collection of each mark in public revenues decreased.***

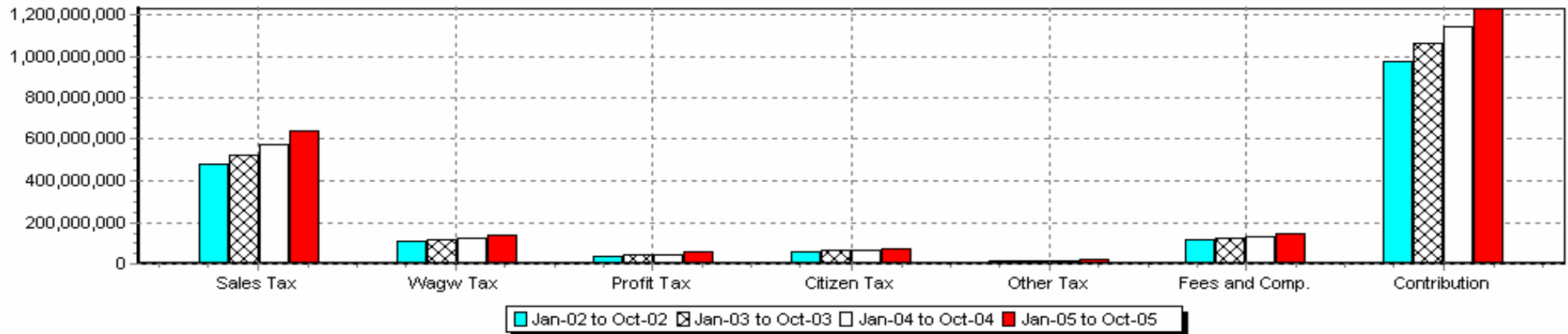
V Tax Declarations and Processing

Data collected during October, 2005 reflect the aggregate performance of the Sarajevo Testing and Processing Center (TAP) and the Mostar Central Processing Center (CPC). Overall performance during October, 2005 was characterized by decrease in the number of documents entered because of decrease in number of scanned documents by branch offices. It is mostly noticed the decrease in the average time of data entering, except for key verification, see Tables 8, 9, 10 and 11.

² Taxpayers are considered registered upon completion of the procedures designated by the *Rulebook on Assigning Identification Numbers and Registration of Taxpayers at the territory of the Federation Bosnia and Herzegovina* (sic), FBiH Official Gazette #39/02. These procedures include issuance of a Taxpayer Identification Number (TIN).

Table 1. TOTAL KM COLLECTED BY TAX ADMINISTRATION - January 1 to October 31, 2004 and 2005

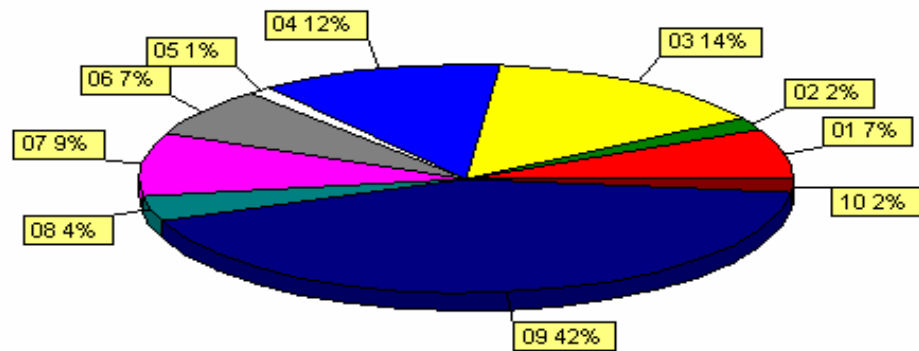
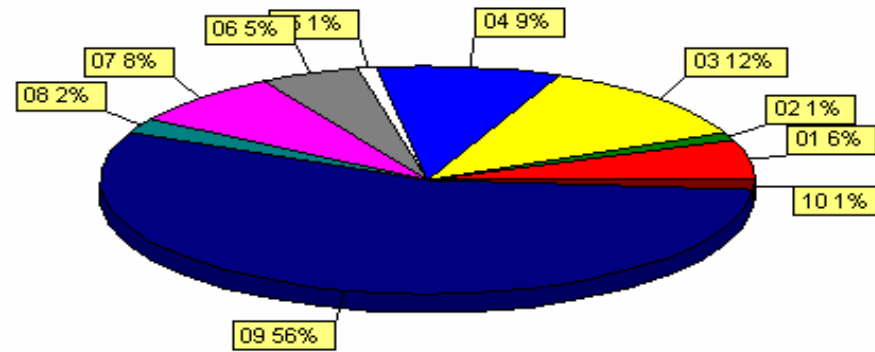
Type of revenue	January 1, 2004 to October 31, 2004	January 1, 2005 to October 31, 2005	% share in total 2005 collection	KM Increase or (Decrease) in 2005	% Increase or (Decrease) in 2005
Sales Tax	582,176,533	643,713,223	27.81	61,536,689	11
Wagw Tax	123,935,932	135,775,448	5.87	11,839,516	10
Profit Tax	46,447,180	60,276,050	2.6	13,828,871	30
Citizen Tax	66,807,240	70,177,868	3.03	3,370,628	5
Other Tax	13,651,768	20,622,719	0.89	6,970,951	51
Fees and Comp.	129,618,043	144,143,147	6.23	14,525,104	11
Contribution	1,151,126,064	1,240,120,337	53.57	88,994,273	8
TOTAL TAXES, FEES AND CONTRIBUTIONS	2,113,762,760	2,314,828,792	100	201,066,032	10

FOUR YEAR COMPARISON - Total KM Collected - January 1 to October 31 - 2002 to 2005

*All data taken from the Revenue System (RAS) files of the FBiH.

Table 2. TOTAL KM COLLECTED BY CANTON - January 1 to October 31, 2004 and 2005

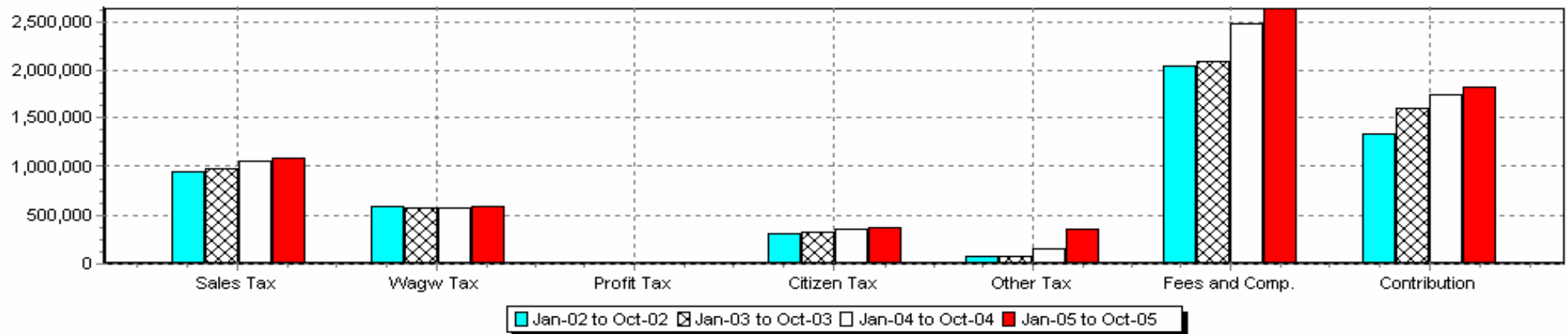
Canton	Time Period	Sales Tax	Wage Tax	Profit Tax	Citizen Taxes	Other Taxes	Fees and Compesations	Contributions	TOTAL	Increase or (Decrease) in 2005	Increase or (Decrease) in 2005
Canton 01	Jan-Oct 2004	54,729,982	9,461,325	2,799,431	4,609,297	1,442,958	11,741,545	85,485,272	170,269,810	1,916,703	1
	Jan-Oct 2005	59,715,059	9,282,216	2,110,038	4,061,396	2,028,132	13,223,588	81,766,084	172,186,512		
Canton 02	Jan-Oct 2004	10,021,019	1,654,955	329,456	513,804	343,095	4,026,018	13,954,051	30,842,399	1,950,240	6
	Jan-Oct 2005	10,777,644	1,799,257	412,980	657,532	598,836	4,379,366	14,167,022	32,792,638		
Canton 03	Jan-Oct 2004	102,923,722	20,517,805	3,621,195	9,309,732	1,230,672	21,028,710	187,960,041	346,591,877	32,332,364	9
	Jan-Oct 2005	113,705,812	22,379,748	3,391,243	10,230,640	2,007,728	26,035,227	201,173,842	378,924,240		
Canton 04	Jan-Oct 2004	67,967,189	15,877,677	3,423,037	6,593,100	1,486,676	15,094,575	139,287,801	249,730,056	36,201,461	14
	Jan-Oct 2005	75,175,371	19,709,905	2,942,882	6,648,981	2,314,310	17,388,382	161,751,686	285,931,518		
Canton 05	Jan-Oct 2004	4,540,624	1,712,199	21,272	419,416	63,274	739,141	12,823,754	20,319,680	506,971	2
	Jan-Oct 2005	5,058,412	1,622,746	11,145	537,442	138,007	881,660	12,577,239	20,826,651		
Canton 06	Jan-Oct 2004	47,707,987	10,539,306	2,141,588	4,424,271	1,107,301	14,838,027	88,560,975	169,319,455	-8,241,780	-5
	Jan-Oct 2005	49,293,212	10,273,373	2,016,272	4,477,434	1,315,267	12,353,074	81,349,042	161,077,675		
Canton 07	Jan-Oct 2004	52,027,234	12,293,243	4,685,105	4,834,233	1,336,864	16,097,595	109,089,122	200,363,396	48,768,453	24
	Jan-Oct 2005	61,150,280	14,419,121	8,076,993	5,584,050	2,351,276	21,701,760	135,848,368	249,131,849		
Canton 08	Jan-Oct 2004	22,743,393	3,195,826	2,837,527	1,103,162	954,353	7,560,729	29,304,209	67,699,198	1,203,491	2
	Jan-Oct 2005	23,655,478	3,626,784	2,070,459	973,025	1,347,226	7,830,079	29,399,639	68,902,689		
Canton 09	Jan-Oct 2004	208,315,330	46,168,921	25,713,604	34,059,693	4,611,220	34,938,141	461,137,491	814,944,401	90,148,887	11
	Jan-Oct 2005	233,816,211	50,185,907	38,806,392	36,221,490	8,032,103	37,506,828	500,524,357	905,093,287		
Canton 10	Jan-Oct 2004	11,200,052	2,514,674	874,964	940,533	1,075,355	3,553,563	23,523,348	43,682,489	-3,720,757	-9
	Jan-Oct 2005	11,365,743	2,476,391	437,645	785,877	489,834	2,843,183	21,563,058	39,961,733		
TOTAL	Jan-Oct 2004	582,176,533	123,935,932	46,447,180	66,807,240	13,651,768	129,618,043	1,151,126,064	2,113,762,760	201,066,032	10
	Jan-Oct 2005	643,713,223	135,775,448	60,276,050	70,177,868	20,622,719	144,143,147	1,240,120,337	2,314,828,792		

% of Total Collection by Canton - January 1 to October 31, 2004**% of Total Collection by Canton - January 1 to October 31, 2005**

*All data taken from the Revenue System

Table 3. TOTAL NUMBER OF PAYMENT ORDERS SUBMITTED - January 1 to October 31, 2004 and 2005

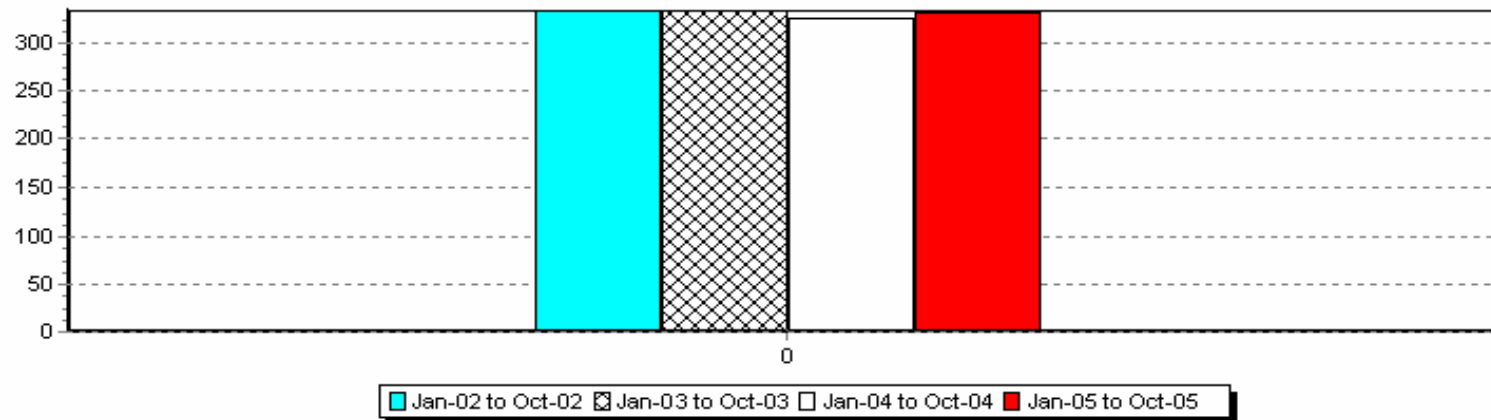
Type of revenue	January 1, 2004 to October 31, 2004	January 1, 2005 to October 31, 2005	% share in total 2005 collection	Increase or (Decrease) in 2005	% Increase or (Decrease) in 2005
Sales Tax	1,071,943	1,106,820	16	34,877	3
Wagw Tax	588,590	603,151	9	14,561	2
Profit Tax	18,267	18,854	0	587	3
Citizen Tax	359,113	374,647	5	15,534	4
Other Tax	150,022	364,049	5	214,027	143
Fees and Comp.	2,498,145	2,653,337	38	155,192	6
Contribution	1,754,838	1,832,865	26	78,027	4
TOTAL TAXES, FEES AND CONTRIBUTIONS	6,440,918	6,953,723	100	512,805	7

FOUR YEAR COMARISON - Total Number of Payment Orders Submitted - January 1 to October 31 - 2002 to 2005

*All data taken from the Revenue System (RAS) files of the FBiH.

Table 4. AVERAGE REVENUE PER PAYMENT ORDER - January 1 to October 31, 2004 and 2005

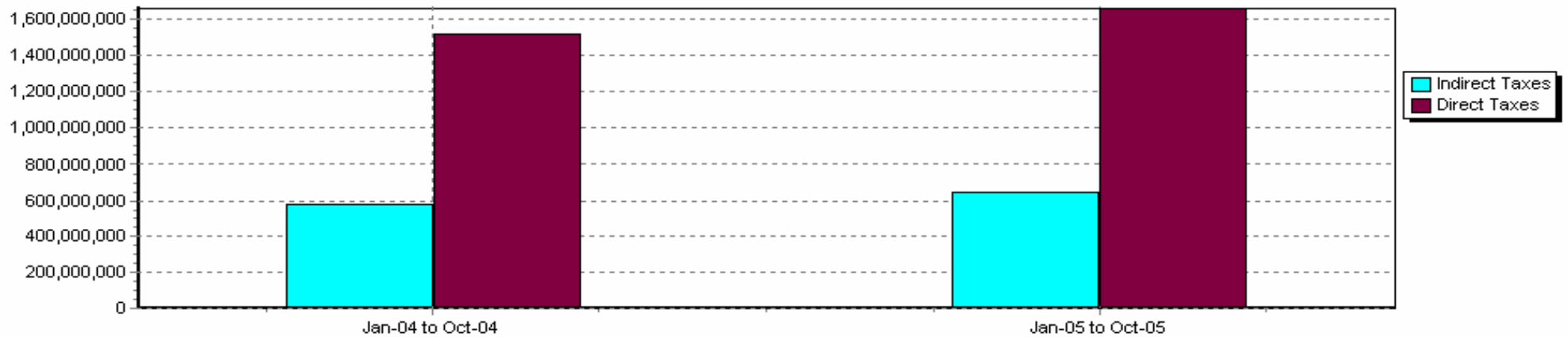
Type of revenue	January 1, 2004 to October 31, 2004	January 1, 2005 to October 31, 2005	% Increase or (Decrease) in 2005
Sales Tax	543	582	7
Wagw Tax	211	225	7
Profit Tax	2,543	3,197	26
Citizen Tax	186	187	1
Other Tax	91	57	-37
Fees and Comp.	52	54	4
Contribution	656	677	3
TOTAL TAXES, FEES AND CONTRIBUTIONS	328	333	1

FOUR YEAR COMARISON - Total Average Revenue per Payment Order - January 1 to October 31 - 2002 to 2005

*All data taken from the Revenue System (RAS) files of the FBiH.

Table 5. INDIRECT VS. DIRECT REVENUE COLLECTION - January 1 to October 31, 2004 and 2005

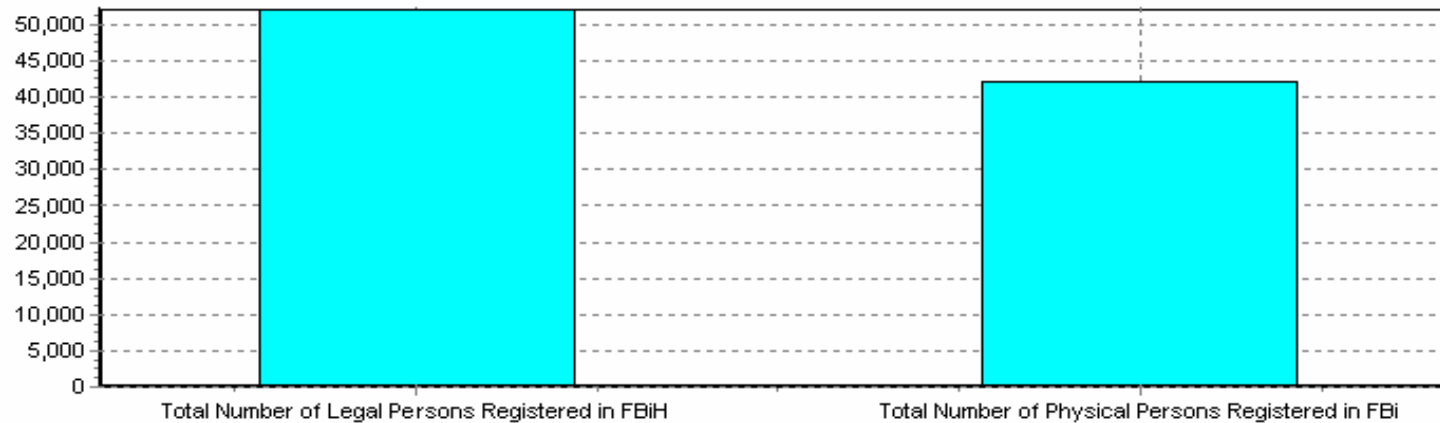
Type of revenue	January 1, 2004 to October 31, 2004	% share in total 2004 collection by	Total	January 1, 2005 to October 31, 2005	% share in total 2005 collection by	Total	% Increase or (Decrease) in 2005
INDIRECT TAXES							
Sales Tax	582,176,533	100		643,713,223	100		11
INDIRECT TAXES TOTAL	582,176,533		28	643,713,223		28	11
DIRECT TAXES & OTHER REVENUES							
Wagw Tax	123,935,932	8		135,775,448	8		10
Profit Tax	46,447,180	3		60,276,050	4		30
Citizen Tax	66,807,240	4		70,177,868	4		5
Other Tax	13,651,768	1		20,622,719	1		51
Fees and Comp.	129,618,043	8		144,143,147	9		11
Contribution	1,151,126,064	75		1,240,120,337	74		8
DIRECT TAXES TOTAL	1,531,586,227		72	1,671,115,569		72	9
GRAND TOTAL	2,113,762,760		100	2,314,828,792		100	10

Indirect vs. Direct Revenue Collection - January 1 to October 31 - 2002 to 2005

*All data taken from the Revenue System (RAS) files of the FBiH.

Table 6. TOTAL REGISTRATION DATA THROUGH October, 2005

LEGAL PERSONS	
Headquarter Offices in FBiH	32,773
Branch Units w/HQ in FBiH	19,279
Branch Units w/HQ in RS	147
Branch Units w/HQ in BD	52
Total Number of Legal Persons Registered in FBiH	52,251
PHYSICAL PERSONS	
Headquarter Offices in FBiH	42,104
Branch Units w/HQ in FBiH	279
Total Number of Physical Persons Registered in FBiH	42,383
TOTAL NUMBER OF TAXPAYERS REGISTERED IN FBiH	94,634



*All data taken from the Revenue System (RAS) files of the FBiH.

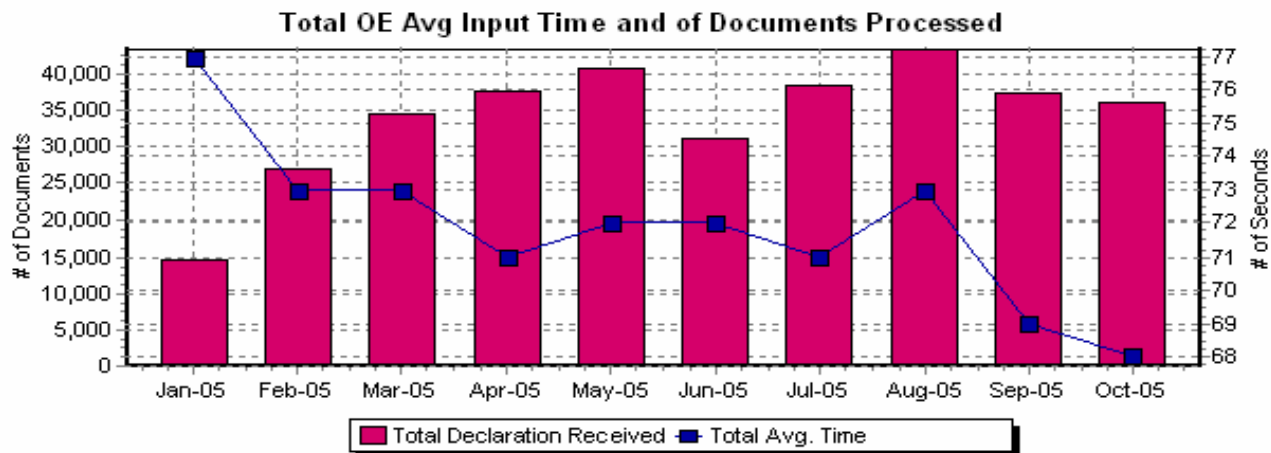
Table 7. TOTAL REGISTRATION DATA DURING October, 2005

LEGAL PERSONS REGISTERED	
Headquarter Offices in FBiH	179
Branch Units	128
Total Number of Legal Persons Registered in FBiH	307
PHYSICAL PERSONS REGISTERED	
Headquarter Offices in FBiH	204
Total Number of Physical Persons Registered in FBiH	204
TOTAL NUMBER OF TAXPAYERS REGISTERED IN FBiH	511
LEGAL PERSONS REGISTRATIONS CANCELLED	
Headquarter Offices in FBiH	9
Branch Units	54
Total Number of Legal Persons Registrations Cancelled in FBiH	63
PHYSICAL PERSONS REGISTRATIONS CANCELLED	
Headquarter Offices in FBiH	43
Total Number of Physical Persons Registrations Cancelled in FBiH	43
TOTAL NUMBER OF REGISTRATIONS CANCELLED IN FBiH	106

*All data taken from the Revenue System (RAS) files of the FBiH.

Table 8. Mostar CPC & TAP MONTHLY ORIGINAL ENTRY (OE) PERFORMANCE - January 1, 2005 to October 31, 2005

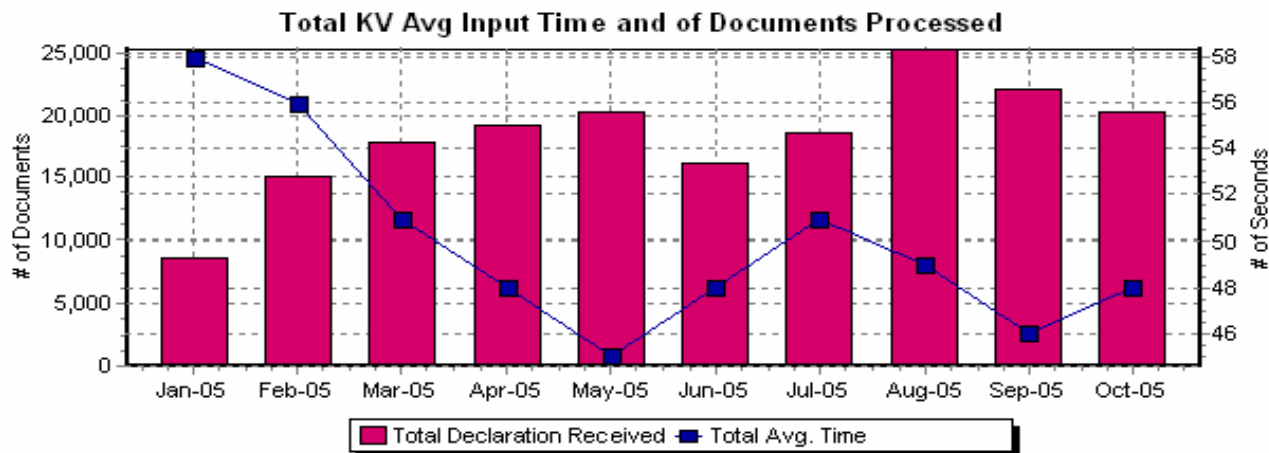
Original Entry of Data from Tax Declarations				
OE is defined as the initial input of data from tax declarations into the TAFBIH's automated information systems. It is the first step in posting tax declarations to the tax accounting database.				
Month	Avg. Input Time in seconds per declaration	Increase or (Decrease) in Avg. Input Time	Number of Declarations Input	Increase or (Decrease) in Number of Declarations Input
5-Jan	77		14,712	
5-Feb	73	-5	27,157	85
5-Mar	73		34,855	28
5-Apr	71	-3	37,965	9
5-May	72	1	41,156	8
5-Jun	72		31,334	-24
5-Jul	71	-1	38,636	23
5-Aug	73	3	43,687	13
5-Sep	69	-5	37,549	-14
5-Oct	68	-1	36,439	-3



*All data taken from the Automated Information Systems (AIS)

Table 9. Mostar CPC & TAP MONTHLY KEY VERIFICATION (KV) PERFORMANCE - January 1, 2005 to October 31, 2005

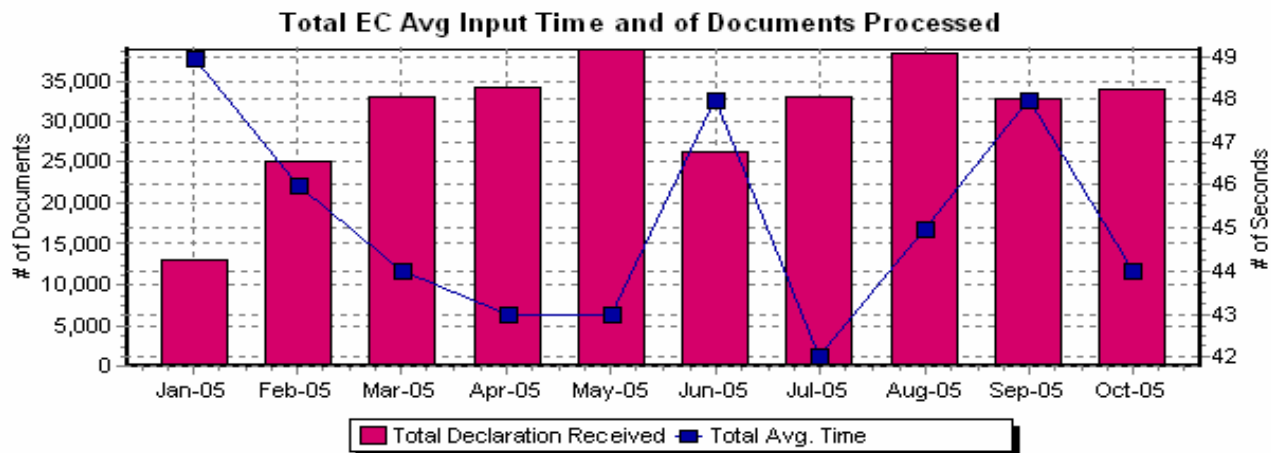
Key Verification of Data from Tax Declarations				
KV is defined as the secondary input of data from tax declarations into the TAFBiH's automated information system. Only data which has been identified as possibly erroneous by the automated information system is input during KV. It is the second step in posting tax declarations to the tax				
Month	Avg. Input Time in seconds per declaration	Increase or (Decrease) in Avg. Input Time	Number of Declarations Input	Increase or (Decrease) in Number of Declarations Input
5-Jan	58		8,626	
5-Feb	56	-3	15,217	76
5-Mar	51	-9	17,943	18
5-Apr	48	-6	19,265	7
5-May	45	-6	20,364	6
5-Jun	48	7	16,340	-20
5-Jul	51	6	18,688	14
5-Aug	49	-4	25,416	36
5-Sep	46	-6	22,193	-13
5-Oct	48	4	20,334	-8



*All data taken from the Automated Information Systems (AIS)

Table 10. Mostar CPC & TAP MONTHLY ERROR CORRECTION (EC) PERFORMANCE - January 1, 2005 to October 31, 2005

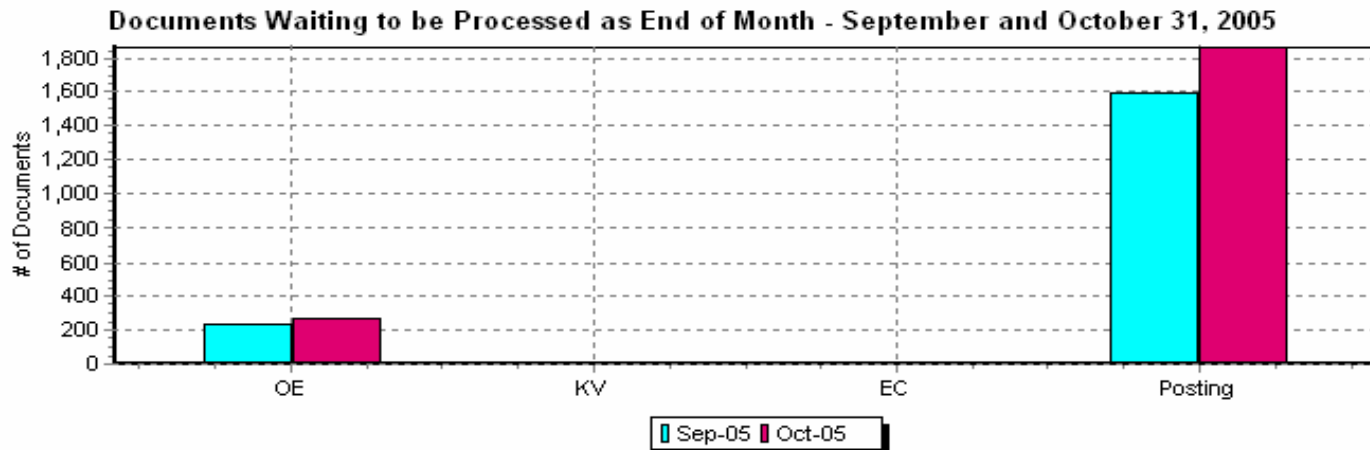
Error Correction				
EC is defined as the manual review of tax declarations which have been found to contain errors by the TAFBiH's automated information system. Tax Administration Law allows for correction of simple math and entity information errors. For entity information errors which render declarations untraceable or for math errors greater than 20 KM a notice is generated and delivered to the taxpayer. EC is the final step in posting tax declarations to the tax accounting database.				
Month	Avg. Input Time in seconds per declaration	Increase or (Decrease) in Avg. Input Time	Number of Declarations Input	Increase or (Decrease) in Number of Declarations Input
5-Jan	49		13,195	
5-Feb	46	-6	25,378	92
5-Mar	44	-4	33,419	32
5-Apr	43	-2	34,417	3
5-May	43		39,184	14
5-Jun	48	12	26,631	-32
5-Jul	42	-12	33,411	25
5-Aug	45	7	38,823	16
5-Sep	48	7	33,024	-15
5-Oct	44	-8	34,341	4



*All data taken from the Automated Information Systems (AIS)

Table 11. Mostar CPC & TAP Document Workflow Status as of October 31, 2005

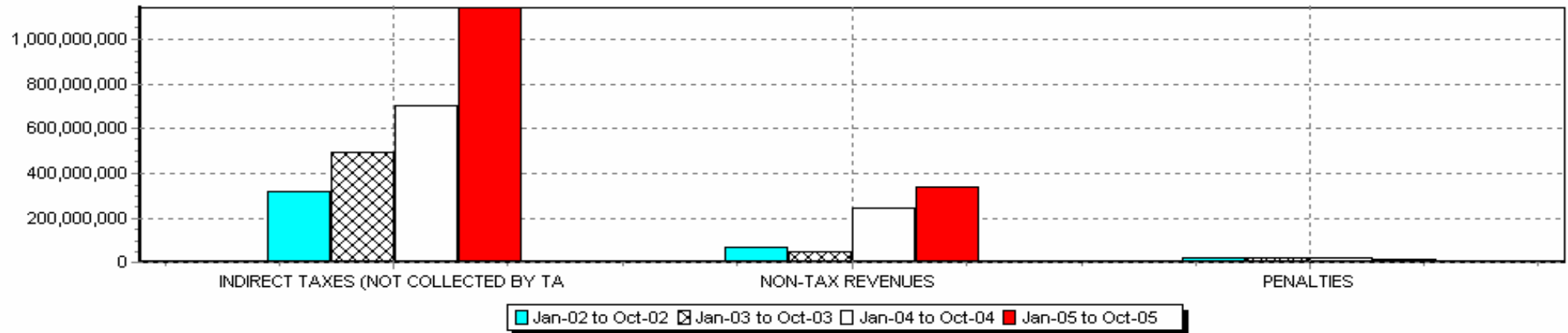
Month	# of Documents Received	Increase or (Decrease) in # of	WAITING FOR				Posted
			OE	KV	EC	Posting	
5-Jan	16,518	0	12	0	0	263	16,243
5-Feb	29,451	78	80	0	0	401	28,970
5-Mar	33,941	15	318	0	0	1,028	32,595
5-Apr	40,424	19	647	0	0	933	38,844
5-May	38,692	-4	1,378	0	0	1,303	36,011
5-Jun	32,291	-17	880	0	0	2,508	28,903
5-Jul	43,607	35	461	0	0	1,248	41,898
5-Aug	38,749	-11	342	0	0	1,387	37,020
5-Sep	37,554	-3	234	0	0	1,600	35,720
5-Oct	36,604	-3	271	0	0	1,874	34,459
TOTALS	347,831		4,623	0	0	12,545	330,663



*All data taken from the Automated Information Systems (AIS)

Table 12. REVENUES FROM INDIRECT TAXES (NOT COLLECTED BY TA), NON-TAX REVENUES AND PENALTIES -**January 1 to October 31, 2004 and 2005**

Type of revenue	January 1, 2004 to October 31, 2004	January 1, 2005 to October 31, 2005	% share in total 2005 collection	KM Increase or (Decrease) in 2005	% Increase or (Decrease) in 2005
INDIRECT TAXES (NOT COLLECTED BY TA)	706,419,284	1,153,222,267	76.34	446,802,983	63
NON-TAX REVENUES	244,656,067	340,592,750	22.55	95,936,683	39
PENALTIES	18,445,468	16,753,044	1.11	-1,692,424	-9
TOTAL	969,520,819	1,510,568,061	100	541,047,242	56

FOUR YEAR COMPARISON - Total KM Collected - January 1 to October 31 - 2002 to 2005

*All data taken from the Revenue System (RAS) files of the FBiH.